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ASSOCIATION OF AMERICAN RAILROADS

FIRST QUARTER 1984
R&E Series No. 717

RAILROAD REVENUES, EXPENSES, AND INCOME*

CLASS I RAILROADS IN THE UNITED STATES

(Dollars in thousands)

FOR THE FIRST QUARTER

ACCOUNT	1984	1983	PERCENT INCREASE 1984 OVER 1983
REVENUE			
FREIGHT	$ 7 213 462	$ 6 169 649	16.9
PASSENGER	29 958	27 291	9.8
PASSENGER RELATED	1 059	1 292	(18.0)
ALL OTHER OPERATING REVENUE	205 970	174 519	18.0
JOINT FACILITY ACCOUNT	1 442	1 323	9.0
TOTAL OPERATING REVENUES	7 450 891	6 375 659	16.9
EXPENSES			
DEPRECIATION-ROAD	231 944	58 662	
ALL OTHER WAY AND STRUCTURES	839 931	947 600	
TOTAL WAY AND STRUCTURES	1 071 093	906 262	
DEPRECIATION-EQUIPMENT	215 649	199 118	8.3
ALL OTHER EQUIPMENT	1 457 194	1 768 397	(17.6)
TOTAL EQUIPMENT EXPENSE	1 672 832	1 917 715	(12.8)
TRANSPORTATION-TRAIN & YARD	2 761 325	2 486 865	11.0
TRANSPORTATION-SPEC. SERV. & ADM.	376 947	365 391	3.2
GENERAL AND ADMINISTRATIVE	737 440	650 366	13.4
TOTAL OPERATING EXPENSES	6 619 225	6 326 704	
NET REVENUE FROM RAILWAY OPERATIONS	831 666	389 955	
OTHER INCOME	278 591	212 735	31.0
DIVIDENDS FROM AFFILIATES	27 976	25 541	9.5
EQUITY IN UNDISTR. EARN. OF AFFIL.	25 726	(10 295)	(349.9)
TOTAL INC. FROM AFFILIATED COS.	53 702	15 246	252.2
MISCELLANEOUS DEDUCTIONS	14 678	12 565	16.8
INCOME AVAILABLE FOR FIXED CHARGES	1 119 781	604 471	
FIXED CHARGES			
INTEREST ON FUNDED DEBT	229 260	243 419	(5.8)
INTEREST ON UNFUNDED DEBT	11 976	9 229	29.8
AMORT. OF DISCOUNT ON FUNDED DEBT	2 341	2 961	(20.9)
TOTAL FIXED CHARGES	243 187	255 607	(4.9)
INCOME AFTER FIXED CHARGES	875 614	294 068	
OTHER DEDUCTIONS	3 496	4 336	(19.4)
UNUSUAL OR INFREQ. ITEMS (DR.) CR.	360	10 917	(103.3)
INCOME (LOSS) FR. CONT. OPER. BEFORE INC. TAX	871 760	300 567	
INCOME TAXES ON ORDINARY INCOME	18 432	(CR) 18 324	200.6
PROVISION FOR DEFERRED INCOME TAXES	242 788	136 915	77.3
INCOME (LOSS) FR. CONT. OPER. AFTER INC. TAX	592 570	181 659	
INCOME (LOSS) FR. OPER. OF DISCONT. SEG.	0	0	
GAIN (LOSS) ON DISP. OF DISCONT. SEG.	0	0	
ORDINARY INCOME	592 570	181 659	
EXTRAORDINARY ITEMS (NET)	4 986	0	
INCOME TAXES ON EXTRAORDINARY ITEMS	0	0	
PROV. FOR DEF. TAXES-EXTRAORD. ITEMS	0	0	
CUM. EFFECT OF CHANGES IN ACCT. PRIN.	0	0	
NET INCOME (AFTER EXTRAORDINARY ITEMS)	597 556	181 659	
INCOME FROM LEASE OF ROAD & EQUIP.	1 152	1 496	(23.0)
RENT FOR LEASED ROADS & EQUIPMENT	12 941	14 792	(12.5)
NET RAILWAY OPERATING INCOME	594 765	264 365	
CASH FLOW	1 277 328	636 633	100.6
RATIOS			
RATIO TO OPERATING REVENUES			
OPERATING EXPENSES	88.8	99.2	
OPERATING EXPENSES (INC. INC. TAXES)	92.5	98.0	
NET RAILWAY OPERATING INCOME	7.5	4.1	

* SEE PAGE 4

RATE OF RETURN ON PROPERTY INVESTMENT

Year Ended March 31

(thousands)

	Net Investment		Net Railway Operating Income		Rate of Return	
	1984	1983	1984	1983	1984	1983
EASTERN DISTRICT	$ 9 226 092	$ 9 226 092	$ 172 619	$ 56 769	4.04	0.62
SOUTHERN DISTRICT	7 408 761	7 408 761	121 114	268 148	4.06	3.62
WESTERN DISTRICT	19 220 545	19 220 545	787 796	528 473	4.70	2.90
UNITED STATES	14 855 388	14 855 388	1 483 529	853 390	4.66	2.45

RAILROAD REVENUES, EXPENSES, AND INCOME

FIRST QUARTER 1984 and 1983

Class I Railroads in the United States

(dollars in millions)

DISTRICT and RAILROAD	FREIGHT REVENUE ACCOUNT 101		TOTAL OPERATING REVENUES		TOTAL OPERATING EXPENSES		NET RAILWAY OPERATING INCOME			ORDINARY INCOME		
	1984	1983	1984	1983	1984	1983	1984	1983 DA	1983 RRB	1984	1983 DA	1983 RRB
EASTERN DISTRICT												
BALTIMORE & OHIO	$ 255	$ 205	$ 265	$ 213	$ 252	$ 219	$ 17	$ -4	-3	$ 8	$ -9	-8
BESSEMER & LAKE ERIE	11	10	13	10	16	16	-2	-3	-3	-1	-3	-2
BOSTON & MAINE	30	26	31	27	30	30	1	N/A	-2	2	N/A	-2
CHESAPEAKE & OHIO	242	204	248	211	230	195	9	6	11	21	-2	5
CONRAIL	811	697	841	718	756	701	80	11	17	86	13	19
DELAWARE & HUDSON	28	23	31	24	32	27	-1	N/A	-3	-2	N/A	-6
ELGIN, JOLIET & EASTERN	18	14	28	22	23	19	2	1	1	3	2	2
GRAND TRUNK WESTERN	80	65	85	68	84	75	3	-4	-5	1	-5	-7
NORFOLK & WESTERN	422	334	438	347	361	331	35	20	11	57	28	23
PITTSBURGH & LAKE ERIE	11	9	12	9	14	16	-2	-6	-6	-4	-9	-8
EASTERN DISTRICT TOTAL	1 909	1 586	1 991	1 651	1 796	1 629	142	21	18	172	15	14
SOUTHERN DISTRICT												
FLORIDA EAST COAST	31	25	31	26	22	20	4	4	3	7	5	4
ILLINOIS CENTRAL GULF	233	205	254	224	237	217	16	-1	7	13	-8	0
SEABOARD SYSTEM	693	593	708	607	590	557	79	60	48	76	40	36
SOUTHERN RY SYSTEM	433	374	443	383	360	323	50	33	38	47	26	30
SOUTHERN DISTRICT TOTAL	1 390	1 197	1 436	1 239	1 210	1 117	149	96	96	142	63	70
WESTERN DISTRICT												
ATCHISON, TOPEKA & SANTA FE	573	476	582	486	533	484	34	4	3	32	-2	-3
BURLINGTON NORTHERN	1 101	972	1 124	993	902	843	120	89	95	140	71	77
CHICAGO & NORTH WESTERN	207	174	233	197	223	193	9	3	6	1	-1	0
CHICAGO, MILW, ST PAUL & PAC	101	82	105	87	104	83	0	3	4	1	2	3
DENVER & RIO GRANDE WESTERN	87	68	88	70	81	64	6	4	5	3	4	5
DULUTH, MISSABE & IRON RANGE	14	9	15	9	19	14	-3	-3	-3	-2	-3	-2
KANSAS CITY SOUTHERN	79	72	82	75	71	68	8	7	6	5	6	4
MISSOURI-KANSAS-TEXAS	66	53	69	55	64	51	5	5	5	3	3	3
MISSOURI PACIFIC	432	404	443	414	392	374	40	35	32	29	20	17
ST LOUIS SOUTHWESTERN	110	83	111	84	98	78	8	4	5	10	3	4
SOO LINE	82	65	84	67	76	63	4	1	2	5	1	2
SOUTHERN PACIFIC CO	530	449	547	462	550	500	11	-28	-34	29	-29	-34
UNION PACIFIC	496	439	502	445	456	393	31	28	31	27	20	24
WESTERN PACIFIC	39	40	39	41	44	47	-1	-5	-4	-4	-2	-2
WESTERN DISTRICT TOTAL	3 915	3 386	4 024	3 486	3 613	3 263	273	147	150	279	91	97
GRAND TOTAL - UNITED STATES	7 213	6 169	7 451	6 376	6 619	6 006	564	264	264	593	169	182

TOTAL OPERATING REVENUES, EXPENSES, ORDINARY INCOME, NET RAILWAY OPERATING INCOME, REVENUE TON—MILES AND CAPITAL EXPENDITURES

CLASS I RAILROADS IN THE UNITED STATES [d]
BY QUARTERS 1979 - 1984

(All amounts in millions)

Year	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total [c]
TOTAL OPERATING REVENUES					
1979	5 710	6 573	6 478	6 851	25 612
1980	6 802	6 943	6 995	7 517	28 257
1981	7 660	7 582	7 964	7 699	30 905
1982	7 196	7 226	6 613	6 482	27 507
1983	6 375	6 584	6 830	6 937	26 726
1984	7 451				
TOTAL OPERATING EXPENSES					
1979	5 587	6 057	6 343	6 422	24 409
1980	6 380	6 559	6 602	6 809	26 350
1981	6 954	7 174	7 332	7 117	28 577
1982	6 828	6 826	6 500	6 331	26 473
1983	6 006	6 222	6 340	6 396	24 964
1984	6 619				
ORDINARY INCOME (After Fixed Charges)					
1979	Def.$ 20	430	40	318	808
1980	264	174	148	544	1 130
1981	626	336	480	562	2 004
1982	210	358	199	425	1 180
1983	182	268	337	430	1 217
1984	593				
NET RAILWAY OPERATING INCOME					
1979	Def.$ 133	$ 270	$ 57	$ 257	$ 451
1980	57	387	57	299	800
1981	294	263	244	541	1 342
1982	475	278	434	198	1 385
1983	201	267	115	183	767
1984	264	247	399	385	1 296
	564				
REVENUE TON-MILES					
1979	207 945	239 009	229 572	237 173	913 699
1980	233 002	227 197	222 377	236 045	918 621
1981	236 597	222 516	227 534	225 058	911 705
1982	207 428	208 027	191 521	192 771	799 747
1983	196 120	203 900	210 808	215 323	826 150
1984	231 137				
CAPITAL EXPENDITURES					
1979	$ 669	767	856	1 033	3 325
1980	855	898	772	1 096	3 621
1981	926	710	550	668	2 854
1982	417	513	461	584	1 975
1983	227	505	364	710	1 807
1984	N/A				

Def. - Denotes Deficit

a/ Rate of return is calculated on the net investment in road and equipment, less interest during construction and debit balances in other elements of investment plus working capital as calculated under Rail Form A procedures. The rate of return does not contain adjustments for investment tax credits as prescribed by the Commission in Ex Parte No. 393 due to lack of available data on a quarterly basis. It is estimated that the Ex Parte No. 393 formula would produce a slightly lower return for the majority of carriers than does the formulas used above.

b/ The 1984 and 1983 rate of return calculations are based on year-end 1982 net investment on a betterment accounting basis. The 1984 NROI is estimated on a betterment accounting basis.

c/ Differences in totals and subtotals are due to rounding.

d/ Data for the first three quarters of 1979 include Chicago, Rock Island and Pacific Railroad. The Rock Island is included in Ton-Mile figures for year-end 1979.

e/ By Notice of Exemption served April 19, 1983, in Finance Docket No. 30160, The Baltimore and Ohio Railroad Company assumed control of the operations of the properties of Western Maryland. Results for 1984 and 1983 reflect this change.

Economics & Finance Department
American Railroads Building
Washington, D.C. 20036

(202) 835-9372

RAILROADS ADOPT DEPRECIATON ACCOUNTING FOR TRACK STRUCTURE

Beginning with 1983 annual reports and 1984 quarterly reports, the railroad industry began reporting its financial results to the Interstate Commerce Commission (ICC) based on a different method of accounting for its track structure. Although cash flow is *not* directly affected by this accounting change, reported income and investment for the industry as a whole are higher than would otherwise have been the case; the impact on individual railroads will differ.

Prior to 1983, railroads used the RRB (retirement, replacement, betterment) method to account for the consumption of their track structure (rail, ties, ballast, and other track material). Under RRB, when a track structure was originally installed, it was capitalized but never depreciated. All subsequent repairs and replacements in kind were treated as maintenance expense; only improvements (betterments) of the track were capitalized and again, not depreciated. The original cost, less salvage value, was charged to expense only when the track structure was retired, such as in an abandonment or major realignment of the track.

In response to an ICC requirement to change to the depreciation method of accounting (traditionally used to account for non-track assets), railroads now depreciate track assets over the estimated service life of each of the components. To implement this change, the value of track assets had to be restated to the amount they would have been at if they would have always been using depreciation accounting. This was accomplished by recording the value of the last programmed replacement of track structures, reduced by a depreciation reserve for the expired portion of the assets' useful service lives.

As a result of inflation, net income, investment, and related accounts are affected by the accounting change. First, since the cost of installing a new section of track has increased significantly over the amount at which most track was first installed, the restated value for the track accounts, net of depreciation reserve, has increased. In essence, the accumulated depreciation expense has not offset the far greater replacement cost. Second, the depreciation expense in any one year is less than what would have been recognized as maintenance expense under RRB, so that income increases. Under depreciation accounting in an inflationary environment, the depreciation expense recognized for lower-cost prior year replacements is less than the current years replacement cost recognized as maintenance under RRB.

Related income statement and balance sheet accounts will be affected as well. On the income statement, in addition to the increase in depreciation expense and the decrease in maintenance expense, interest expense and deferred tax expense will be affected. On the balance sheet, the increase in net road assets will be balanced by increases to accumulated deferred taxes and shareholders' equity. Finally, capital expenditures for road will increase.

Effect on the RE&I Report

Depreciation accounting affects the comparability of a number of statistics and trends published in the quarterly "Revenues, Expenses and Income" statement (RE&I). Since the ICC does not require a complete restatement of 1983 quarterly data to depreciation accounting, this year's RE&I is modified as follows:

Page 1: Income Statement - Where the comparison between 1984 and 1983 accounts is invalid, the percent increase or decrease statistic is not computed. For the first quarter, rates of return are computed on an RRB basis (estimated); for the second, third, and fourth quarters, rates of return are annualized percentages on a depreciation accounting basis.

Pages 2 & 3: Where data are available, 1983 Net Railway Operating Income and Net Income columns are shown on both a depreciation accounting and RRB basis.

Page 4: Prior to 1984, statistics are on the RRB basis. Beginning in 1984, statistics are on the depreciation accounting basis.